

The reparations problem

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The Treaty of Versailles of 1919 obliged Germany to pay reparations for the damage caused by the war. The amount was fixed in 1921 at 132 billion gold marks, a sum far beyond Germany's capacity to pay. The payment of reparations became one of the central problems of international politics and finance in the 1920s. When Germany fell behind with its payments in 1923, France and Belgium occupied the Ruhr. The German hyperinflation of the same year destroyed the German currency and the savings of the German middle class.¹

The Dawes Plan of 1924, negotiated under the chairmanship of the American banker Charles Dawes, stabilised the German currency, reorganised the payment of reparations and provided Germany with an international loan. It worked for a few years, while American capital flowed into Germany and allowed it to pay reparations with borrowed money. In 1929, a new committee of experts under the chairmanship of the American industrialist Owen Young proposed a final settlement, the Young Plan, which reduced the total amount, extended the payments over almost sixty years and replaced the foreign control of the Dawes Plan with a new institution: a bank that would receive the German payments, distribute them to the creditors, manage the reparation loans and facilitate the commercialisation of the reparation debt by issuing bonds.²

The idea of the bank was developed by the central bankers in the Young Committee, among them Hjalmar Schacht, the president of the German Reichsbank, and Émile Moreau of the Banque de France. Schacht saw in the bank an instrument that could also promote international trade and credit, which would allow Germany to earn the foreign exchange it needed to pay reparations. The bankers of the Committee wanted an institution independent of governments, controlled by central banks and operating according to commercial principles.

1 Notes

1. On the reparations fixed by the London Schedule of Payments of 1921 (132 billion gold marks), the occupation of the Ruhr in 1923 and the German hyperinflation, see the standard literature on the reparations question. To be verified. ↩
2. On the Dawes Plan (1924) and the Young Plan (1929), and the proposal of the Young Committee to establish a Bank for International Settlements, see the standard literature on the reparations question; Toniolo, 2005, chapter 1. To be verified. ↩

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